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VOLUME 5

INTRODUCTORY STOCK MARKET COURSES

MECHANICAL METHODS

AND

TREND FOLLOWING SYSTEMS

BY

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COSMOLOGICAL ECONOMICS

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INTRODUCTORY STOCK MARKET COURSES
MECHANICAL METHODS & TREND INDICATORS

W. D. GANN

CHAPTER 1

SPECULATION AS A PROFITABLE PROFESSION

A COURSE OF INSTRUCTIONS ON STOCKS

SPECULATION A PROFITABLE PROFESSION

A Course of Instructions With Rules for Trading in Stocks

FOREWORD

Be ready for opportunities. Knowledge more important than capital. To succeed in any business you must be prepared, and in preparing for a speculative or investment business you must look up the greatest advance or the greatest decline a stock has ever had and the greatest time period from the high or low. Most profits are made in active fast moving markets. Examples: Stocks 1924-1929- September 29th to November 15th, 1929; November 13, 1929 to April 17, 1930.

FAST ADVANCES

You will find these from June 1949 to June 1950; June 13, 1950 to July 14, 1950 this was a fast decline.
1952 and 1953 - September 1953 to April 1954, fast advance.

SLOW TRADING MARKET

You should keep out of slow trading markets or watch until you get a definite indication of a change in trend. There was a slow trading market from November 1946 to November 1949, that is the range in most stocks was narrow because the market was going through a period of consolidation or accumulation and getting ready for the big bull market which followed later.

CROSS CURRENTS

You must learn to know that some stocks sometimes are declining while others are advancing, and that there are cross currents, and you must know about these. Example: 1952 to 1954 Studebaker, Chrysler, Celanese declined while Vanadium, Steel, DuPont and Aircraft stocks advanced. Only by a study of the individual stocks and the different groups can you determine what stock is supposed to decline at the time when another stock is going to advance.

HOW TO SELECT THE GROUP OF STOCKS WHICH WILL LEAD AN ADVANCE OR A DECLINE

During 1953 - 1954 the Aircrafts were big leaders. You can see from the chart and the group of the averages on Aircrafts where they broke into new high levels. Example: Douglass Aircraft, Boeing Aircraft, United, Glenn Martin and Lockheed all indicated that they were in a position to advance when the average price or average value of the group of stocks indicated a strong position. Without a knowledge of these things you could not make a success.

LOW PRICE STOCKS DISAPPOINTING

A study past history proves that buying low price stocks often ties up capital for a long period of time. You wait, and if you do not lose money you lose your patience and when your patience is exhausted in advance of the start you get out. Many low price stocks have held in a narrow trading for 5, 10 years or more before they started to advance or to decline and some, after remaining in a narrow trading range for a long period of time, declined to new low levels. The best way to make money is to take higher price stocks and buy them after they have broken into new high ground and show activity as outlined under the rules below.

NEW INDUSTRIES AND GROWTH STOCKS

Select stocks to buy in new industries but make careful study of their prospects and make up charts on stocks that you intend to trade in, and if they are part of a group that you can get a record of, study this group and then pick the individual stock to buy that shows indication of leading the group.

STOCKS OF THE FUTURE

When considering what stocks to buy in the future, you must make up charts and study the companies which are producing Uranium and are developing Atomic Energy machinery for commercial purposes. Among this group of stocks are Babcock & Wilcox Co., Bendix Aviation Corp., Dow Chemical Co., DuPont , General Dynamics Corp., General Electric (which is one of the largest in the business and has orders from the U. S. Government as well as a few commercial concerns), Newport News Shipbuilding, Phillips Petroleum, Sylvania Electric Products, Inc., Union Carbide and Carbon Corp., Vanadium Corp. of America and Westinghouse Electric Corp.

Among the very best of these stocks for the future we consider Vanadium, Molybedeum, General Dynamics Corp., which has now consolidated with Consolidated Vultee.

Among the low priced stocks with future possibilities of enhancement in value due to Uranium deposits is New Park Mining listed on the American Exchange. Fairchilds Engine and Aircraft Corp. also has possibilities of becoming a future leader.

You must, of course, buy any of these stocks at the time the total value of all stocks on the N. Y. Stock Exchange show up-trend and buy the best of the individual stocks when the individual groups show up-trend, selecting the one you buy that is in the strongest position.

You would not buy any of these higher priced stocks at the present time because the total value of all stocks on the N. Y. Stock Exchange is at the highest levels in history and because the trend of stocks has been up in a general way since 1932 and the last extreme low was April 1942 and the present swing in the bull market started in June, 1949. Therefore it is natural to expect a decline in stocks during the last half of 1954 and you must be cautious on the buying side.

HOW TO MAKE SPECULATION A PROFITABLE PROFESSION

Speculation or investment is the best business in the world if you make a business of it. But in order to make a success of it you must study and be prepared and not guess, follow inside information or depend on hope or fear. If you do you will fail. Your success depends on knowing the right kind of rules and following them.

FUNDAMENTAL RULES

Keep this well in mind. For stocks to show up-trend and continue to advance they must make higher bottoms and higher tops. When the trend is down they must make lower tops and lower bottoms and continue on down to lower levels. But remember, prices can move in a narrow trading range for weeks or months or even years and not make a new high or a new low. But after a long period of time when the stocks break into new lows they indicate lower prices and after a long period of time when they advance above old highs or old tops they are in a stronger position and indicate higher prices. This is the reason why you must have a chart a long way back in order to see just what position the stock is in and at what stage it is between extreme high and extreme low.

THE KIND OF CHARTS TO KEEP UP

Remember the old Chinese proverb, "One good picture is worth 10,000 words". You should make up charts and study the picture of a stock before you make a trade. You should have a weekly high and low chart, a monthly high and low chart, and a yearly high and low chart. A yearly high and low chart should run back 5, 10 or 20 years, if you can get records that far. Monthly high and low chart should run back for at least 10 years and the weekly high and low chart should run back for 2 or 3 years. When stocks are very active you should have a daily high and low chart. This need not go back more than a few months, especially start the daily chart after the stock breaks into great activity.

FOLLOW THE MAIN TREND

You will always make money by following the main trend of stocks up or down. Remember that stocks are never too high to buy as long as the trend is up and they are never too low to sell as long as the trend is down. Never sell short just because the stock is high or because you think it is too high. Never sell out and take profits just because the price is high. Buy and sell according to definite rules and not on hope, fear or guesswork. Never buy a stock just because the stock is low. There is usually a good reason why it is low and it can go lower.

RULES FOR BUYING AND SELLING

The first thing to remember before you start to apply any rules is that you must always use a STOP LOSS order to protect your capital. When making a trade remember that you can be wrong or that the market may change its trend and the STOP LOSS order will protect you and limit your loss. A small loss or several small losses can easily be made back with one large profit but when you let large losses run against you it is hard to make them back.

PROVE ALL THINGS AND HOLD FAST TO THAT WHICH IS GOOD

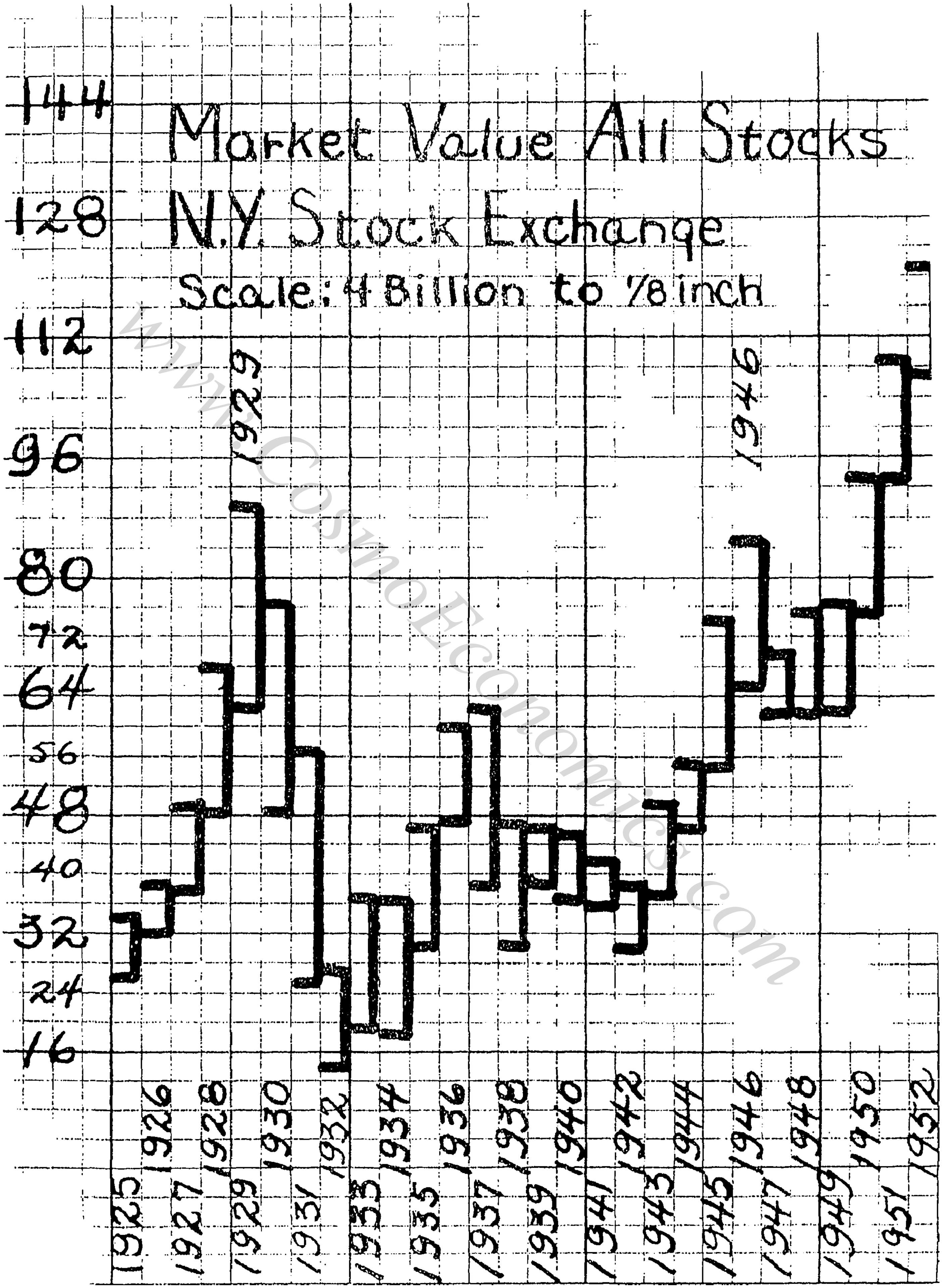
The Bible tells us this and it is well worth remembering. Many people believe that it is wrong to buy at new high levels or to sell at new low levels but it is most profitable and you must prove this to yourself because when you do buy at new high levels or sell at new low levels you are going with the trend of the market and your chances for making profits are much better than any guesswork or buying or selling on hope or fear.

PROLONGED ADVANCES

After stocks have had a prolonged advance and wind up with a fast, active, runaway market in most cases they come down very quickly and much faster or in a shorter period of time than when they go up. That is why you must keep up some daily charts at the end of a fast move and keep up the weekly charts to determine the first change in trend and be able to go with it.

SHARP DECLINE IN A SHORT PERIOD OF TIME

This usually follows a rapid advance and the first sharp declines which may last from one month to as much as seven weeks usually corrects an overbought position and leaves the market in position for a secondary advance.


Market Value All Stocks
N.Y. Stock Exchange
Scale: 4 Billion to 7/8 inch
144
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112
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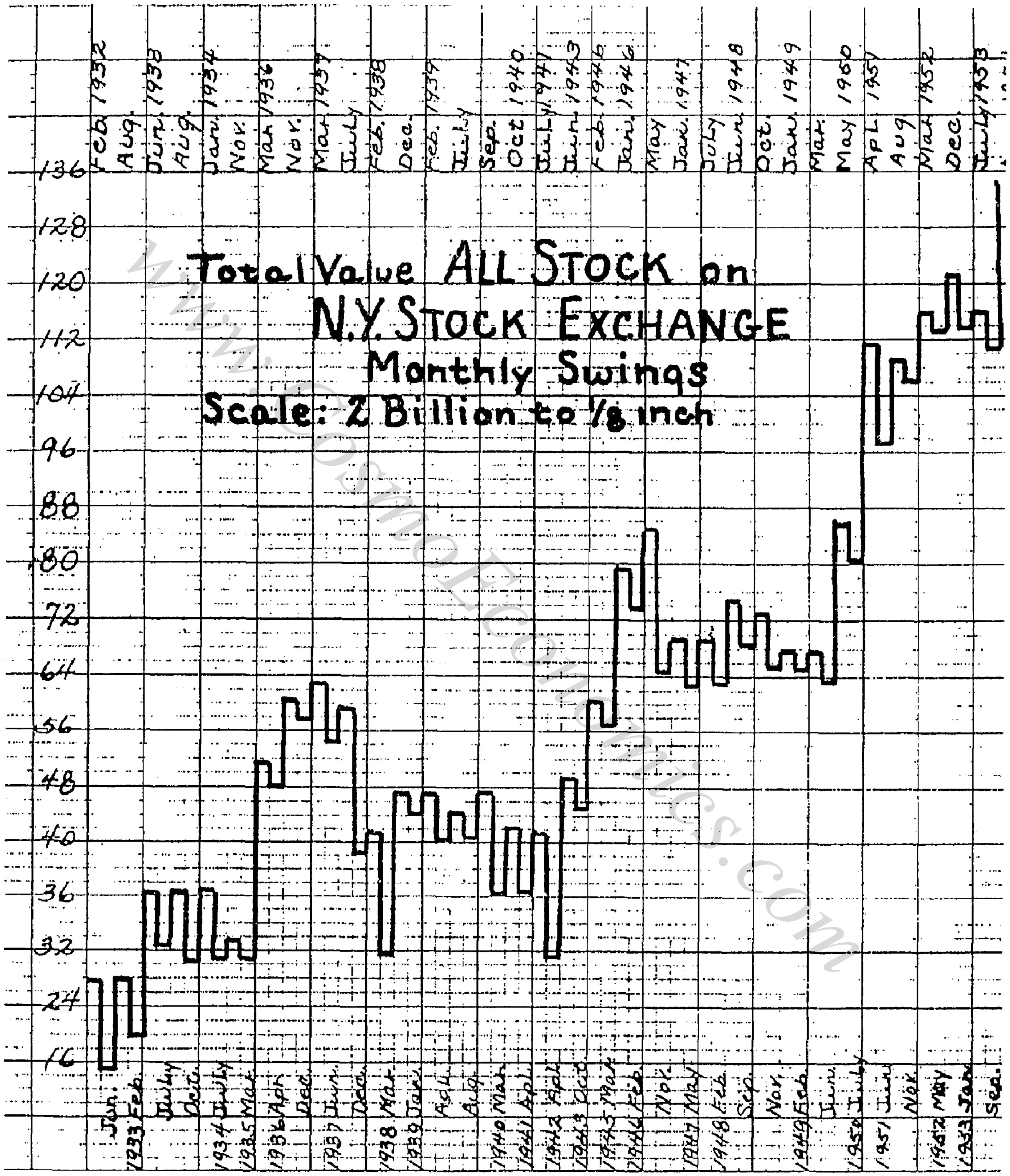
Total Value ALL STOCK on
N.Y. STOCK EXCHANGE
Monthly Swings
Scale: 2 Billion to 1/8 inch
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<u>CHAPTER 2</u>

METHOD FOR TRADING WITH THE OVERNIGHT CHART

THE W. D. GANN MECHANICAL STOCK TRADING METHOD

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METHOD FOR TRADING WITH THE OVERNIGHT CHART

The Overnight Chart and the method for operating it is purely mechanical. You use no judgment but simply follow rules and reverse your position when the Overnight Chart indicates it. If you buy and sell and use stop loss orders according to rules, this Method will make a large amount of profits over a long period of time.

The Overnight Chart is taken from the daily high and low chart and the rule for keeping it is as follows:

As long as a stock makes higher bottoms each day, you move the Overnight Chart up, but the first day it makes ½ point or more under a previous day's bottom, you move the Overnight Chart down to this level, but always recording the highest top reached before the Overnight Chart turns. Then as long as the Overnight Chart makes lower bottoms, you continue to move it down. Should it make a higher bottom and a lower top the same day, you would move it up to the top of that day because the Overnight Chart is based on bottoms. When there is a wide swing and the market runs up early in the day and makes a higher top than the previous day and then runs down later in the day and makes a lower bottom, you first move your chart up to the top, or highest point reached during the day, and then bring it down to the lowest level. Then suppose next day it makes a higher bottom, you move it up to the top of that day.

You can use the Resistance Levels in connection with the Overnight Chart, but the only rule that I use in connection with the trading record on U. S. Steel, which will follow, is the half-way point, taking extreme low and extreme high of the last move and dividing it by two to get the gravity center or half-way point. Then buy or sell when this point is reached and protect it with a 1 point stop loss order. The other trading indications are according to the Overnight Chart.

When a stock reaches a new high where you have a Resistance Levels between a previous high and a previous low, you simply follow the Overnight Chart and reverse position when the rule indicates it.

You should watch the daily highs and lows on your daily chart around Permanent Resistance Levels as they will help you to determine a change in the major or minor trend on the Overnight Chart.

RULE 1: Buy or sell on double or triple tops or bottoms with a stop-loss order 1 point above the top or 1 point under the bottom. This is the rule that I use. However, many times you will make more money if you use a 3-point stop loss order but by using a 1-point stop loss order most of the time, the stop will not be caught very

<u>Chapter 3</u>

Review Of The Bear And Bull Markets

Showing Formations

Buying And Selling Points

1903-1939 Dow-Jones Industrial Average

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REVIEW OF BULL AND BEAR MARKETS

Showing Formations and Buying and Selling Points 1903-1939 Dow-Jones 30 Industrial averages

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2nd BEAR MARKET

The 2nd Bear Market started on June 23, 1901 and reached final low on November 9, 1903. After that there was a period of accumulation which lasted until July 3, 1904.

1903 END OF 2ND BEAR MARKET

Jul. The averages broke 53 and 51 and there was no rally or sign of support at these old levels, indicating great weakness and lower prices. After these old bottoms were broken, the next point to watch for support and bottom was 42, the low of Mch. 25, 1898.

Oct. 15 Low 42-1/4. Support came at the old bottom. A 2 weeks' rally followed to 45-1/2; then a 2 weeks' decline to Nov. 9, when the averages reached 42-1/8, a DOUBLE BOTTOM, just above the old bottom at 42 in Mch. 1898. This was TIME TO BUY with close stop loss orders. A rally followed and prices crossed 45-1/2, over the tops of the past 3 weeks ... the first sign that the minor trend had turned up and the Bear Market ended.

You should now review the 2nd Bear Market from the top at 78-1/4 in June, 1901, to the bottom at 42-1/8 on Nov. 9, 1903.

From 78-1/4 high to 42-1/8 low, the total range was ... 36-1/8 points. The greatest rally in the Bear Market was ... 8 points, from 59-5/8 to 67-7/8. Therefore, when the averages advanced 9 points or one point more than the greatest rally in the Bear Market, it would be a definite signal for a Bull Market and a safe place to buy.

1904 3rd BULL MARKET

ACCUMULATION ON SIDE BEFORE IT STARTS

Jan. 27 High 50-1/2, up 8-3/8 points from the low at 42-1/8, not yet 9 points to confirm Bull Market ready to go ahead.

Feb. 6 In this week prices broke under the lows of the two previous weeks, indicating a reaction. The averages failing to reach old bottoms at 51-1/2 to 53, indicated that the selling was not yet over.

SECONDARY REACTION ... SAFE TO BUY

Mch. 12 Low 46-1/2, a decline of 4 points from the top and a loss of one-half the gain from 42-1/8 to 50-1/2. This reaction lasted 6 weeks from the top and held for 3 weeks in 1-1/2 point range; then crossed tops of 3 previous weeks, indicating higher prices.

Apr. 7 High 49-7/8. Failed to reach last top at 50-1/2, a sign that it was not yet ready to go up. A slow decline followed, lasting 6 weeks.

May 18 Low 47-1/2, off only 2-3/8 points in 6 weeks, indicating very little selling; also volume of sales very small. This was dullness at bottom. A slow advance started and it required 7 weeks for prices to cross the top at 50-1/2.

SAFEST PLACE TO BUY

Jul. 16 Prices crossed 51 and advanced to 52-1/2, up over 10 points from the bottom and a greater advance than the rally of 8 points in the previous Bear Market. From Nov. 9, 1903 to July 9, 1904, prices held in a range of 8 points and most of the time in a 4-point range ... a period of 8 months of accumulation on the side, getting ready for a Bull Market. Study this formation of sideways accumulation 4 points above the low levels so that you will know what it means when you see it again. After July, 1904, prices advanced to 53, the old bottom; reacted one point in one week; then the advance was resumed. The old tops at 68 were crossed in November. There was no reaction and prices moved right on up, indicating a strong Bull Market. The next point to watch would be around the old tops at 78 to 78-3/4.

1905

Mch. 15 The averages made 78-1/4.

22 Reacted to 76-1/2.
Then went thru old tops, advancing to 80 before end of March.
The next old top was 84-1/2 made Sep. 4, 1895.

Apr. 14 High 83-3/4, just under old bottom at 84-1/2. Prices held 3 weeks in 2-1/2 point range at top; then broke under 3 weeks' bottoms, indicating minor trend down, and stocks should have been sold out.

May 22 Failing to make bottom at 78, the old top, indicated lower. On May 22 the averages reached 71-3/8. The last old top in July and August was 72-3/4.

Jun. 3 In this week crossed top of previous week, indicating higher. After low of 71-3/8 the next 4 weeks each bottom was higher.

Jun. 17 and 24 ... In these weeks the high was 75-1/4 and the following week crossed tops, indicating higher.

Nov. The averages advanced to 84-1/8, the old tops. Then reacted to 81. The advance was resumed and prices crossed old tops at 84-1/2. The next old high was 94-1/2 made in March and April, 1892.

Dec. The averages advanced to 96; reacted to 94 and held for three weeks, making bottoms at 94 and failing to break 94, an indication of strong uptrend and higher prices. There was no change in trend at this level and no weekly bottoms broken. Refer to rule, "When Stocks Advance into New High Ground."

1906

Jan. 19 High 103. END OF BULL MARKET.
This was 8-1/2 points above old top. When prices of averages or stocks

CHAPTER 4

SEASONAL CHANGES IN STOCKS

SCIENTIFIC ADVICE
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SEASONAL CHANGES ON STOCKS

The average of stocks and many of the individual stocks make important bottoms and tops according to the Seasonal Changes, which are as follows:

The Winter Quarter begins December 22nd, and 15 days from this date is January 5th and 6th, which are always important dates to watch at the beginning of each year, as stocks often make extreme high or extreme low around these dates and a change in trend takes place. When stocks make low in December just before or just after the 22nd, a January rise usually follows. Dividends are payable on the first of January, and people buy for the dividends, which brings about a rally which often culminates around the 3rd to 7th. However, in some years, the January advance lasts until around the 20th to 21st.

February 5th is 45 days from December 22nd, and minor changes often take place around this date and, sometimes, very important tops and bottoms are reached.

March 21st is 90 days from December 22nd. This is the date when the Sun crosses the Equator and Spring begins. The Spring rally in the Stock Market often starts around this date or culminates, if stocks have been advancing previous to this date.

May 6th is 46 days from March 21st or 135 days from December 22nd and equals the 135° angle. Watch for important change in trend around this date.

June 22nd is 93 days from March 21st, which equals 90°, and, of course, it is opposite December 22nd and is important for seasonal change, as Summer begins at this date.

July 7th is 15 days from June 22nd and 6 months or 180 days from January 7th. July being a dividend month, advances or declines often culminate around this date and an important change in trend takes place. It is the next important date to watch after June 22nd.

August 8th is 47 days from June 22nd but the Sun has only moved 45°, which equals the 45° angle. This is a very important date for change in trend, and you should watch stocks that make tops and bottoms around this date.

September 23rd is 93 days from June 22nd, but the Earth or Sun has only travelled 90°. The Sun crosses the Equator at this time and is 180 ° or opposite the point where it crosses the Equator on March 21st. Fall begins at this date, and stocks make important changes in trend.

November 8th is 46 days from September 23rd and equals 45°. You will find by checking over the records that many important tops and bottoms and changes in trend occur around this date.

December 22nd is 91 days from September 23rd and 6 months or 180 days from June 22nd. This is where Winter begins, and it is important to watch for important changes in trends.

MONTHLY CHANGES

Stocks make important changes in trend every 30, 60, 120, 150, 210, 240, 300, 330 and 360 days or degrees from any important top or bottom. These seasonal changes or monthly changes based on the beginning of any seasonal changes are important to watch for tops and bottoms.

January 21st is 30 days or 30° from December 22nd, and the Sun changes signs at this date.

February 19th is 60 days or 60° from December 22nd, and the Sun or Earth makes another change in sign.

April 20th is 120 days or 120° from December 22nd.

May 22nd is 150 days or 150° from December 22nd and 60° from March 21st.

July 23rd is 210° from December 22nd and 120° from March 21st.

August 23rd is 240° from December 22nd.

October 23rd is 300° from December 22nd.

November 22nd is 330° from December 22nd.

All of the above dates are important to watch for changes in the major and minor trends.

Next to the 30 day change in trend, the most important are those that occur every 7th, 10th, 14th, 20th and 21st day. You will find some variation in these due to the fact that the Sun changes sign every 30 days and that the Moon returns to its own place every 28 days and that there is a New Moon around 29 days from the previous New Moon. Sometimes the change will occur on the 28th day from a previous top or bottom, and, at other times, on the 33rd or 34th day, due to the changes in the Moon and the time between these changes and the time that the Earth or Sun changes signs.

The dates when companies are incorporated and the dates when stocks are first traded in on the New York Stock Exchange or other Exchanges causes them to make tops and bottoms at slightly different dates than these dates for seasonal changes.

CHAPTER 5

NATURAL RESISTANCE LEVELS AND TIME CYCLE POINTS

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NATURAL RESISTANCE LEVELS AND TIME CYCLE POINTS

The resistance levels given below are based upon natural law and can be applied to the measurement of both time and space. Around these points stocks meet resistance going up or down or traveling the same number of points from a top to a bottom. Tops and bottoms of major and minor movements come out on these resistance levels.

When man first began to learn to count, he probably used his fingers, counting 5 on one hand and 5 on the other. Then counting 5 toes on one foot and 5 on the other, which made 10, he added 10 and 10 together, which made 20, adding and multiplying by 5 and 10 all the way through. This basis for figuring led to the decimal system, which works out our 5, 10, 20, 30 and other yearly cycles, as well as other resistance points. Man's basis for figuring is 100, or par, on stocks and $1.00 as a basis of money value. Therefore, the 1/4, 1/8, 1/16 points are all important for tops and bottoms and for buying and selling levels.

Taking the basis of 100, the most important points are 25, 50 and 75, which are 1/4, 1/2 and 3/4. The next most important points are 33⅓ and 66⅔, which are 1/3 and 2/3 points. The next points in importance are the 1/8 points, which are 12½, 37½, 62½ and 87½. The next in importance are the 1/16 points, which are 6¼, 18¾, 31¼, 43¾, 56¼, 68¾, 81¼ and 93¾.

Since 9 is the highest digit, it is very important for resistance levels in time and space. The most important levels according to 9 are: 9, 12, 27, 36, 45, 54, 63, 72, 81, 90, 99, 108, 117, 126, 135 and 144. You will note that many of these points correspond with the other resistance levels, because 12 is simply 9 with 1/3 of 9 added to it.

The second important resistance levels formed by the digit of 9 are the 1/2 points, which are as follows: 4½, 22½, 31½, 40½, 49½, 58½, 67½, 76½, 85½, 94½, 103½, etc. You simply add 1/2 of 9, or 4½, to any even figure, or figure coming out on equal numbers of 9.

The next important resistance levels are those formed by 12 and its multiples. These are very important on account of the 12 months in the year. The points also come out very close to many of the other important resistance points measured on the basis of 100 and 9 and also the points in the division of the circle of 360°. The most important points of resistance according to 12 are: 12, 18, 24, 30, 36, 42, 48, 54, 60, 66, 72, 78, 84, 90, 96, 102, 108, 114, 120, 126, 132, 138, 144 and the other points which you can see on the Master Twelve Chart or Square of 12 x 12. A separate explanation of the Master Twelve Chart gives these other important points. Tops and bottoms of most stocks come out remarkably close to a basis of 12.

The circle of 360°, when divided into its geometrical parts, proves the reason of all resistance levels and measures time and volume as well as space very accurately. It is important to divide the circle by 2, 3, 4, 5, 6, 8, 9 and 12, to get the important resistance levels.

We first divide the circle by 2 and get 180, which is the strongest resistance level because it is the gravity center or 1/2 point. It equals 180 months or 15 years, which is 3/4 of the 20-year cycle and 1/2 of the 30-year cycle, which is very important.

We next divide the circle by 4 and get 90, 180, 270 and 360. These are very important points because they equal 7½ years, 15 years and 22½ years, which is 3/4 of the circle. These points in days, weeks or months mark the beginning and the ending of important Time Cycles, as well as being important resistance levels when the price reaches them, especially when the time is up.

The next important levels we obtain by dividing 360 by 3, getting 120 as 1/3 and 240 as 2/3 points. These equal the 10-year cycle and the 20-year cycle and, of course, the third point, or 360, is the 30-year cycle.

Dividing the circle by 12, we get the following important points, which correspond with other points: 30, 60, 90, 120, 150, 180, 210, 240, 270, 300, 330 and 360. 150 and 210 are very important because 150 is within 30 months of the 180° angle or halfway between 120 and 180. 210 is 1/2 point between 180 and 240.

After dividing the circle by 12, it is next important to divide by 24, because there are 24 hours in a day, and the Earth moves 15° every hour or 360° in 24 hours. Therefore, we get the following points: 15, 30, 45, 60, 75, 90, 105, 120, 135, 150, 165, 180, 195, 210, 225, 240, 255, 270, 285, 300, 315, 330, 345, 360. If we divide 15 by 2, we get 7½. Adding this to any of the other points gives an important point which corresponds to many of the other resistance levels. For example: Adding 7½ to 15 gives 22½, which is 1/16 of a circle. 150 is an important point and if we add 15 to this, we get 165, which is the 1/2 point between 150 and 180, 180 being one of the strongest angles. Get your other important points in the same way by adding 7½ or 15.

Dividing the circle by 8, we also get very important points, which are: 45, 90, 135, 180, 225, 270 and 315. 135 is very important because it is 180° from 45. 315 is very important because it is the opposite of 135 and 90° from 45.

The next important points for resistance and measurement of time are obtained by dividing the circle by 16, which gives 22½, 45, 67½, 90, 112½, 135, 157½, 202½, 225, 247½, 292½, 315 and 337½.

The points obtained by dividing the circle by 32 are also important because they measure out cycles closely in accordance with the Master Twelve Chart and come out closely with the months. These points are 11¼, 33¾, 56¼, 78¾, 101¾, 123¾, etc., just simply adding 11¼ to any of the other figures to get the next figure.

The lowest division of the circle of any importance is 1/64, which is 5⅝ of 1/2 of 11¼. These are of minor importance but tops and bottoms often come out on these points, especially when we are nearing the end of a major cycle. These points are as follows: 5⅝, 16⅞, 28⅛, 39⅜, 50⅝, 61⅞, 73⅛, 84⅜, 95⅝, 106⅞, 118⅛, 129⅜. All of these points are the 1/2 points between the other important points. 22½ is 1/2 of 45, 11¼ is 1/2 of 22½, and 5⅝ is 1/2 of 11¼.

It is very important to divide the circle by 9 because 9 is the highest digit used. Dividing by 9 we get the following important points: 40, 80, 120, 160, 200, 240, 280, 320, 360, all very important resistance levels and corresponding with many of the other resistance levels calculated from the different points.

Dividing these points by 2, we get 20, 40, 60, 80, 100, 120, 140, 160, 180, 200, 220, 240, 260, 280, 300, 320, 340, 360. Many stocks work to these points of a circle in division of time, making tops and bottoms according to price and according to months. I use these points and the Master Twelve points and the other important points obtained through dividing the circle by 2, 4 and 8, as the most important resistance levels in measuring the time cycles.

If you will take the time to go over any stock running back 10 to 30 years, checking all important tops and bottoms, you will see how well these points work out both in time and space. In checking the Weekly High and Low Chart, you will find more of them working out than you can see on the monthly, because there are bottoms and tops made on weekly moves which do not show on the Monthly High and Low Chart. Then checking up on the Daily Chart, you will find minor moves working to these points which do not all show on the Weekly High and Low Chart.

To determine monthly movements, it is important to divide the year by 4, which gives the seasonal changes or the 4 quarters, which equal about 90° in time or 90 days and come to the strong resistance levels. Watch for changes every 3, 6, 9 and 12 months. Most stocks make changes of importance at the end of each 12-month period. The next important thing to do is to divide the year by 3, making 4 months, 8 months and 12 months important points to watch. Dividing 52 weeks or 1 year by 4 gives 13 weeks, 26 weeks, 39 weeks as important points to watch for change in trend. Divide 52 weeks by 3 to get the 1/3 points. On this basis, the 17th to 18th weeks and the 35th to 36th weeks will be important points to watch for a change in trend.

When any important Time Cycle is running out, watch your Daily and Weekly High and Low Charts for an indication that top or bottom is being reached. Keep up your angles closely, as the angles will determine when the trend is changing. One good rule to use after a very extended campaign, which has run 50 points or more in space, is to take the greatest move on the way up or down and then when it exceeds this on a reaction it indicates that the trend is changing. Another way is to take 1/12 of the total movement. Suppose a stock has advanced 144 points, then 1/12 of 144 points is 12 points. As a rule, when a stock has advanced this much and reacts 12 points, especially if reactions have been smaller up to this time, it indicates that the move is coming to an end. Some stocks will go up and never react more than 1/4 of the total distance traveled, others will react 1/3 of the distance and others will react to the 1/2 point. Always calculate from where the move starts the last time and watch the 1/2, 1/4 and 1/3 points from the last bottom or top, as well as your calculations from the major bottoms and tops.

The example given below will show you how we work out the campaigns in U.S. Steel according to time and space movements.

UNITED STATES STEEL CORPORATION

This company was incorporated February 25, 1901. Trading in the common stock began on the New York Stock Exchange on March 28, 1901, when it opened at 42¾. Now, this being a new stock, which was not listed on the Exchange before, we have no high and low to go by, so the first rule to apply is: If the stock moves down 3 points first, it will indicate still lower; if it advances 3 points, it will indicate that it is going higher. Next, we put on the square of 90°. You will see that I have drawn the angles up from 0 beginning with March, 1901, and drawn the angles down from 90 beginning March, 1901. These angles will show whether the stock is in a strong or weak position after it fluctuates for a short time.

Using the 3-point rule, the stock advanced to 46 from 43, which is 3 points up and would indicate higher, especially as it had crossed 45. But you will note it is below the 8 x 1 angle drawn from 90 which shows a weak position, while from the bottom it is above the 8 x 1 angle and is strong for some kind of a rally. It goes to 55. Now note your resistance levels. 56¼ is the resistance level because it is 45 plus 11¼. 54 is the resistance level on the Nine Square and on the Master Twelve Square. 55 is one of the psychological points where the public buys a stock after it crosses 50 because they think it is going much higher. After the stock has gone up to 55, then take 1/2 from 43 to 55, which is 49. Breaking 49, the halfway point, shows trend down. After breaking this level it broke the low level at 43.

The next way to calculate is to take 1/2 of 55, which is 27½. During the panic of May 9, 1901, U.S. Steel declined to 24. 24 is an exact point on the Master Twelve Chart and 22½ is the support level on the angles. Take the halfway point of the stock, 27½, and the angle of 22½° and get the halfway point between these. It is exactly 25, which indicated around 25 would be a strong support level and a place to buy for a rally.

Next, from the top 55 to the low 24, we get the halfway point which is 39½. If the stock crosses this point, then the next resistance point is the 3/4 point, which is 47. It advances to 48 in July, 1901, and holds for several months without breaking back below 39½. However, it fails to cross the 45° angle from 90 and from 55. In October, 1902, it breaks 39½ and breaks below the 45° angle from the 24 bottom, putting it into a weak position. Notice that in July, 1923, the 45° angles from 0 and from 90 cross at 28 and that 27½ is the halfway point of 55. The stock breaks under the 45° angle from 0 for the first time; then goes straight down to 8⅜ in May, 1904 and rests on the angle of 4 x 1 from 0, the base or beginning point, reaching bottom on the 39th month from March, 1901, and 36 months from the bottom of May, 1901, coming out on an even cycle. Being down 46 points from the top would indicate a strong support level, because 45 points down is equal to the 45° angle and indicates strong support. Nine is 5/6 of 55, a support level and any stock getting down around 9, the digit, always receives good support. This is a strong number for stocks to make bottom on.

In August, 1904, the stock crosses the angle of 2 x 1 from 90 for the first time and gets active in September, crossing the 45° from 55, which shows uptrend. Twenty is 1/4 point from 55 to 8⅜. It crosses this level, which indicates higher. The next point is the 1/3 point which is 23⅝, which level is also crossed. The next point is 1/2 which is 32⅞. In December, 1904, it makes 33, where it hits the angle of 2 x 1 from 55, reacts, then crosses 33 and goes to 38 in April, 1905, which is 5/8 of the distance from 8⅜ to 55. Note that 39 was the last top in February, 1903. The stock declines to 25 in May, rests on the angle of 2 x 1 from 0 March, 1901, and on 2 x 1 from left of 45° angle from 0 May, 1904, showing strong support, also because 23⅛ was 1/2 from 8⅜ to 38. The angles held the stock above the halfway point.

CHAPTER 6

HOW TO MAKE PROFITS TRADING IN PUTS AND CALLS

HOW TO MAKE PROFITS TRADING IN PUTS AND CALLS

To make a success trading in stocks every man should learn everything he can about the stock market and the ways to operate in the market in order to make the greatest success. He should learn to take the smallest risk possible and then try to make the greatest profits possible. The more a man studies and learns, the greater success he will have. We quote Proverbs 1: 5— "The wise man will hear and will increase learning." Again, Proverbs 2: 11— "Discretion shall preserve thee; understanding shall keep thee." Proverbs 3: 9— "Give instructions to a wise man and he will become wiser. Teach a just man and he will increase in learning." The "Book of the Lambs" says that the fear of the market is the beginning of knowledge.

Many people do not realize that without preparation and knowledge the stock market is dangerous and that it is easier to make losses than it is to make profits. However, the risks in stock speculation or investment are no greater than in any other line of business if you understand and apply the proper rules to speculative trading, and the profits compared to risks are greater than in any other business.

WHAT ARE PUTS AND CALLS ON STOCKS

PUTS and CALLS are insurance which provide protection for your profits and permit you to trade in stocks with limited risk. A CALL is a contract between you and the seller whereby he agrees to sell you a stock at a fixed price and deliver it in 30 days. You have the option of calling for delivery at any time during the 30 days. Your loss is limited to the price you pay for the premium, which is the same as buying insurance with a Call. For example:

Suppose a man has a house for sale and agrees to sell it to you for $5,000 and deliver it at that price 60 days later. You pay him $100 for the privilege of buying the house or rejecting it. If at the end of 30 or 60 days you are able to sell the house for $500 profit or for $1,000 profit, then you exercise your option to buy the house for $5,000 and sell it to the man so you can make a profit. But if the option expires and you are unable to sell the house for more than the price, then you lose the $100 and do not have to buy the house.

The same applies in buying Calls on a stock. For example: If you buy a Call when Chrysler is selling around 105, good for 30 days at 110, you pay $142.50, which includes the Federal taxes. Suppose before the 30 days are up, Chrysler advances to 115, which would give you a profit of $500, you can sell Chrysler any time it reaches 115 and demand delivery of the stock at 110. But if Chrysler sells at 115 within 10 days after you bought the option and you believe that the trend is up and Chrysler is going higher, then you hold and do not exercise your option or sell the stock. Just before the end of the 30 days, if Chrysler is selling at 120, you could sell 100 shares of Chrysler at 120 and then call for delivery on your Call at 110, making a profit of $1,000, less your commission and the amount paid for the Call. On the other hand, after you have bought the Call at 110, if at no time it advances above 110 and at the end of 30 days Chrysler is selling below 110, you, of course, make no profit and are only out the amount of money that you paid for the Call.

A PUT is an option or an agreement with a man from whom you buy the Put that you can deliver to him the stock at a fixed price any time within 30 days after you buy the Put. A Put costs you $137.50 per 100 shares. We will take this example: When Chrysler is selling at 105, say, you believe it is going down and buy a Put for 30 days at 100, for which you pay $137.50. This means that when Chrysler declines below 100, it puts you in a position of being short 100 shares at that price, because the man from whom you bought must take from you 100 shares of Chrysler at 100 any time that you deliver it to him within the 30-day period. We will assume that Chrysler goes below 100 and declines to 95. You can buy 100 shares when it goes to 95 and then hold it to the end of the 30 days. In the meantime if Chrysler advances to 105 giving you 10 points' profit, you could sell it out. Then at the end of the time the option expired if Chrysler was still selling above 100, you would have made the profit on the stock that you bought against the Put and would simply let the option expire and only be out the price you paid for it. But, on the other hand, if you do not trade against the Put and the stock declines and, we will say, at the end of 30 days is selling around 90, you then buy 100 shares of Chrysler and your broker delivers 100 shares to the man that you bought the Put from, giving you the profit of $1,000, less the money you paid for the option and your commission.

PUTS and CALLS are perfectly safe because every Put and Call sold by a reliable Put and Call broker is endorsed by a member of the New York Stock Exchange who is thoroughly reliable and will deliver you the stock that he agrees to deliver on which he sold an option or will receive from you any stock that he agrees to buy on an option.

Again, to make it plainer, when you buy a Call on a stock you are long of the market if it goes above the price at which you bought it, just the same as if you had the stock bought, except that your risk is limited. Again, when you buy a Put on a stock, it means that you are short at the price at which you bought the Put, but you do not have to put up any margin or have to stand any loss except the price you paid for the Put. Then as it declines below the price at which you bought the Put, you are making money just the same as if you made a short sale.

SPREAD OR STRADDLE

When you buy a Put and a Call on the same stock it is called a Spread. For example: Suppose Chrysler is selling at 100 and you are in doubt whether it will go up or down but you want to take advantage of a move when it gets under way. Therefore we will say that you buy a Put at 96 and a Call at 104. Let us assume that the market starts to react and declines to 95, then hesitates and looks like making bottom. Then you buy 100 shares of Chrysler, knowing that if it continues to decline you cannot lose anything because you have a Put at 96. Let us assume that you are right and the market starts to advance. It continues to advance and before the end of the 30 days Chrysler advances to 110 and there are 6 points' profit in the Call that you bought at 104. You also still have the stock that you bought against the Put at 96. Now, you can sell out 200 shares of stock and call for the 100 shares at 104, which gives you a profit on the Call and your Put expires because it is of no value.

Often Spreads can be bought very close to the market when you are buying a Put and a Call from the same man. On some stocks you can often buy Spreads at the market by paying an additional premium. As a rule, it would not pay to buy a Spread except on very active stocks which have a very wide fluctuation during the 30 days, giving you a chance to operate against both the Put and the Call during the month. At least when you buy a Spread if the stock moves 10 or 15 points or more in either direction, you are sure to make some money. However, it is not always advisable to spend as much as it costs to buy Spreads unless the market looks like it is going to be very active and you are trading in high-priced stocks.

Put and Call brokers, give these definitions: "A PUT is a negotiable contract by which the taker may put —to the maker a certain lot of securities at a specified price on/or before a fixed date. A CALL is the opposite. A SPREAD is one PUT and one CALL. PREMIUM is the money paid for a PUT, CALL or SPREAD. MAKER is he who writes or sells PUTS, CALLS and SPREADS. ENDORSER is a N. Y. Stock Exchange firm which guarantees a PUT, CALL or SPREAD contract by endorsing it like a check. The insurance feature provided by these privileges is considered valuable.

HOW PUTS AND CALLS ARE SOLD

Puts and Calls are sold by traders and large operators who make it a business trading in and out of the market and selling Puts or Calls on the stocks that they have bought or sold, but Puts and Calls are always endorsed by members of the New York Stock Exchange. As a rule, Puts and Calls are sold so many points away from the market, that is, a Call costs you $142.50 and the price that it is away from the market depends upon the activity of the stock and the condition of the market. A Put is the reverse, so many points below the price at which the market is selling that day, depending upon the